STATE OF WASHINGTON

DEPARTMENT OF LABOR AND INDUSTRIES

INDUSTRIAL INSURANCE FUND

FINANCIAL INFORMATION
(UNAUDITED)

For the following funds:
608 - Accident Fund
609 - Medical Aid Fund
610 - Accident Reserve Fund

As of June 30, 2000

Prepared by: Insurance Services Division

State of Washington
Department of Labor and Industries
Industrial Insurance Fund

Management's Discussion and Analysis of Results of Operations and Financial Condition

Cash Flow from Operations

The Industrial Insurance Fund (the Fund) administers the Workers' Compensation Insurance program in the state of Washington. Workers' Compensation benefits are paid for lost wages during disability, permanent partial and total disability, vocational rehabilitation and medical costs incurred in conjunction with the injury. Benefits are funded by premiums paid by employers and employees who are not self-insured and earnings of the Fund's investment portfolio.

Premiums collected during the fiscal year ending June 30, 2000 were $933 million, up slightly from the prior fiscal year. The increase in collected premiums is due to the growth of exposure. Exposure has been increasing in excess of 2% for more than 4 years. Medical Aid premium rates are purposely being held more than 60% lower than adequate in order to fairly return equity to premium paying workers and employers. This reduced rate level, along with reductions to the Accident Fund premium rates has served to hold premiums down despite the increases in exposure.

Benefits of nearly $935 million were paid during fiscal year 2000. This is an increase of over 6% compared to fiscal year 1999. Quarterly benefits paid were $259 million. This is more than 9% greater than the next largest quarter.

Cash flow from investment income (primarily interest) was $140 million for the quarter and $513 million in the year. This is up 4.9% over the prior fiscal year.

Financial Condition

Total assets decreased by $87 million in the quarter to end at $8.9 billion. The $8.9 billion is an increase of $374 million, or 4.4% in the fiscal year. The contingency reserve decreased $278 million in the quarter. The dividend of $200 million, since distributed, and an adverse stock market were the major forces reducing the contingency reserve. The ending contingency reserve of $1.45 billion was 20.6% of benefit and claim administration liabilities. Annual net earned premiums declined 2.5% while the underlying hours of exposure (not shown) grew at more than 2%. Inflationary increases to benefits incurred combined with equity market developments returning to historical levels are expected to gradually reduce the contingency reserve and eventually require rate increases.

Reserves

Total benefit reserves increased $64 million in the quarter. The Accident Fund reserves decreased by $26 million, the Medical Aid Fund reserves increased by $50 million and the Pension Fund reserves increased by $40 million. Accident Fund reserves generated beneficial runoff of $43 million, driven by beneficial developments in PPD and Timeloss benefit reserves and adverse development in TPD reserves. The Medical Aid Fund displayed no development (or, developed exactly adequate) during the quarter.

The PPD reserves developed beneficially as model distortions induced by hearing loss claims were again reduced this quarter. Hearing loss claims included in PPD are estimated to account for more than 25% of the PPD benefits granted, compared to an historical level (pre-1994) of 10%-15%. The department estimates that hearing loss claims are being incurred at the rate of approximately $35 million per year.

Pension reserves increased $40 million in the quarter. Pensions are being granted at a faster rate than they were last year. More than 1,000 TPD pensions were granted in fiscal year 2000, compared to just under 600 TPD pensions during fiscal year 1999. The increased pension rate served to induce the beneficial runoff in Timeloss reserves and induce the adverse runoff in TPD reserves.

The Claim Administration reserves were again reduced slightly to reflect continued reduced costs. The retrospective premium refund reserve was reduced $50 million in the quarter, acting to offset distributions of $92 million. The year end retrospective premium refund reserve was $133 million, $21 million more than the prior fiscal year end.

Liquidity and Capital Resources

The Fund's operation requires liquidity sufficient to meet both short-term and long-term requirements. Workers' compensation claims are subject to some variation, and therefore a higher degree of liquidity is required.

The Fund has generally met its operating requirements by maintaining appropriate levels of liquidity in its investment portfolio and through utilization of positive cash flow. This has allowed the Fund to minimize trading activity, maintain a stable investment portfolio, and provide a sound basis for adequate Reserves for Estimated Future Benefits.

The Fund's investment portfolio is managed by the Washington State Investment Board and the Washington State Treasurer. The portfolio is managed to balance cash flow, timing and reinvestment risks, then maximize current income while preserving capital. Currently, the Fund has the financial capability to hold its fixed-income portfolio to maturity, and to match projected cash inflows from premiums and investment income from this portfolio with projected cash outflows for payment of benefits. All currently held fixed-income securities were rated Investment Grade when purchased. All foreign fixed-income securities are dollar-denominated; therefore there is no foreign currency fluctuation exposure.

All equity holdings are in the form of index funds. The Barclay-Wilshire 5000 equity fund was designed to be nearly equivalent to the Wilshire 5000. There may be some small tracking error from period to period when comparing to the true Wilshire 5000 as the matching is not exact. The B-W5000 equity index declined 4.5% in the last quarter of fiscal 2000. Total equity values dropped by $58 million in the quarter, $49 million in US markets and $9 million in foreign markets. The weighted value of the equity holdings did increase at an annualized rate of 9.4% in the fiscal year, as annual urealized gains were $118 million .

Equity securities at 6/30/2000 were distributed by fund as follows:

	6/30/2000
Barclay-Wilshire 5000 Index Fund	84%
International Index Fund	16%
	100%

The ratio of equities to total invested assets at market value was 16.4% at 6/30/00. Rebalancing is required at 12% or 18% and there is thus no need to rebalance as there was last fiscal year end.

Fixed income investments realized a loss of $7 million in the quarter and $8 million in the fiscal year. Total equity gains in the same twelve months were $140 million, about 40% less than the previous year.

Equity securities are recorded at market value, investments in fixed-income securities are recorded at amortized cost. At June 30, 2000, the carrying value of the fixed-income portion of the investment portfolio exceeded the market value by $164 million. This is a result of interest rate increases and the continued runoff of the older, higher-return securities. The market value of fixed-income investments decreases as interest rates rise. Generally, however, fixed maturities (bonds) are held to maturity so that differences between market value and carrying value will not significantly influence management's investment decisions or future investment income or yields.

At June 30, 2000, the investment portfolio consisted of the following (in millions):

	Carrying Value		Market Value		Difference
Corporate fixed income securities	3,579	42%	3,391	40%	188
Mortgages and mortgage backed securities	1,413	17%	1,399	17%	14
Common and preferred stocks (at market)	1,396	16%	1,396	17%	-
U.S. Treasury securities and obligations of U.S. government agencies and corporations	930	11%	1,005	12%	(75)
Debt securities issued by foreign governments	876	10%	840	10%	36
Asset backed securities	177	2%	176	2%	1
Money market	167	2%	167	2%	-
	8,538	100%	8,374	100%	164

Commitments and Contingencies

Effective July 1, 1992, the Washington State Legislature required the Fund to participate in an assigned risk pool providing workers compensation coverage under the United States Longshore and Harbor Workers' Act. The Fund is obligated to participate 50% in the operating results of the assigned risk pool. This participation is scheduled to continue; state legislation passed in 1997 which extended the Fund participation indefinitely.

The pool has not operated at a loss through March 31, 2000. The Fund would record any estimated loss on an annual basis, subsequent to the audit of the results of operations of the assigned risk pool.

STATE OF WASHINGTON
INDUSTRIAL INSURANCE FUND
SUMMARY of FINANCIAL CONDITION
(in thousands of dollars)
UNAUDITED

Assets	**6/30/00**	**3/31/00**	**6/30/99**
Cash and Investments:			
Bonds, at Amortized Cost	$7,142,663	$7,153,457	$6,594,828
Stocks, at Market Value			
(Cost $1,096,161, $1,096,161, $1,344,067)	$1,395,730	$1,453,820	$1,526,103
Net Unsettled Trades	($39,909)	$0	($15)
Cash	($955)	($4,844)	$17,484
Total Cash and Investments	$8,497,529	$8,602,433	$8,138,400
Other Assets:			
Premiums Receivable, Net	$253,136	$227,110	$246,314
Interest Receivable	$105,686	$114,570	$98,948
Land, Buildings and Equipment, Net	$61,217	$62,195	$62,271
Other Assets	$2,400	$309	$58
Total Other Assets	$422,439	$404,184	$407,591
Total Assets	$8,919,968	$9,006,617	$8,545,991
Liabilities and Contingency Reserve			
Liabilities			
Estimated Future Benefits:			
Accident Fund	$2,768,824	$2,794,633	$2,765,709
Medical Aid Fund	$2,472,517	$2,422,622	$2,370,486
Pension Reserve Fund	$1,385,963	$1,346,315	$1,270,384
Total Estimated Future Benefits	$6,627,304	$6,563,570	$6,406,579
Other Liabilities:			
Claims Administration	$427,398	$441,995	$449,866
Retro Rating Adjustments	$133,074	$182,994	$112,044
General Obligation Bonds Payable	$52,700	$54,810	$54,810
Other Accrued Liabilities	$227,291	$24,827	$21,766
Deferred Revenue	$534	$8,898	$388
Total Other Liabilities	$840,997	$713,524	$638,874
Total Liabilities	$7,468,301	$7,277,094	$7,045,453
Contingency Reserve	$1,451,667	$1,729,523	$1,500,538
Total Liabilities and Contingency Reserve	$8,919,968	$9,006,617	$8,545,991

This information is from Washington State's Accounting and Financial Reporting System.

This information is from Washington State's Accounting and Financial Reporting System.

STATE OF WASHINGTON INDUSTRIAL INSURANCE FUND
SUMMARY of OPERATIONS and CONTINGENCY RESERVE
(in thousands of dollars)
For 3 months and 12 months ending June 30, 2000,
and12 months ending June 30,1999
UNAUDITED

Revenues	3 months ended 6/30/00	Percent of Net Premium	YEAR ended 6/30/00	Percent of Net Premium	YEAR ended 6/30/99	Percent of Net Premium
Premiums Earned:						
Net Standard Premiums	$240,755	121%	$937,473	119%	$931,081	115%
Retrospective Rating Adjustments	($41,947)	-21%	($146,909)	-19%	($120,034)	-15%
Net Premiums Earned	$198,808	100%	$790,564	100%	$811,047	100%
Net Investment Income	$128,894	65%	$503,285	64%	$476,323	59%
Net Realized Gains (Losses) Fixed Income	($7,044)	-4%	($8,195)	-1%	$48,910	6%
Net Gains (Losses) Equities	($58,090)	-29%	$139,628	18%	$192,948	24%
Self Insured Pension Contributions	$2,741	1%	$35,118	4%	$31,941	4%
Other Income (Expense, all Dividends as shown)	($200,000)	-101%	($200,000)	-25%	($203,068)	-25%
Total Revenues	$65,309	33%	$1,260,400	159%	$1,358,101	167%
Expenses						
Benefits Incurred:						
Accident Fund	$85,967	43%	$434,613	55%	$517,949	64%
Medical Aid Fund	$162,460	82%	$472,379	60%	$583,834	72%
Pension Reserve Fund	$74,011	37%	$248,685	31%	$188,190	23%
Total Benefits Incurred	$322,438	162%	$1,155,677	146%	$1,289,973	159%
Administrative Expenses:						
Claims Administration	$9,291	5%	$60,603	8%	$105,002	13%
Underwriting	$8,803	4%	$27,378	3%	$23,723	3%
General Insurance Expense	$6,742	3%	$20,055	3%	$17,552	2%
Other Administrative Expenses	($1,506)	-1%	$39,006	5%	$38,583	5%
Total Administrative Expenses	$23,330	12%	$147,042	19%	$184,860	23%
Total Expenses	$345,768	174%	$1,302,719	165%	$1,474,833	182%
Net Income	($280,459)	-141%	($42,319)	-5%	($116,732)	-14%
Change in Non-Admitted Assets	$2,604		($6,552)		$10,860	
Change in Contingency Reserves	($277,855)		($48,871)		($105,872)	
Contingency Reserve, beginning of period	$1,729,523		$1,500,538		$1,606,410	
Contingency Reserve, end of period	$1,451,667		$1,451,667		$1,500,538	

This information is from Washington State's Accounting and Financial Reporting System.

STATE OF WASHINGTON
INDUSTRIAL INSURANCE FUND
CASH FLOW SUMMARY
(in thousands of dollars)
For the 3 months and 12 months ended June 30, 2000
and
12 months ended June 30, 1999
UNAUDITED

	3 months ended 6/30/00	Percent of Net Premium	12 months ended 6/30/00	Percent of Net Premium	12 months ended 6/30/99	Percent of Net Premium
Standard Premiums Collected	$213,544	175%	$932,566	112%	$929,820	110%
Self Insured Pension Contributions Collected	$70	0%	$29,034	3%	$25,677	3%
Retrospective Rating Adjustments	($91,867)	-75%	($125,879)	-15%	($109,212)	-13%
Net Premiums Collected	$121,747	100%	$835,721	100%	$846,285	100%
Other Income (Expense)	$1,096	1%	$6,232	1%	($191,760) *	-23%
Fund Transfers In (Out)	$2,024	2%	($5,601)	-1%	$200	0%
Cash Flow In	$124,867	103%	$836,352	100%	$654,725	77%
Benefits Paid	$258,704	212%	$934,952	112%	$879,920	104%
Claims Administration Expense	$23,888	20%	$83,071	10%	$79,300	9%
Premium Administration Expense	$7,128	6%	$23,425	3%	$20,910	2%
General Insurance Expense	$5,479	5%	$17,160	2%	$15,470	2%
Other Administrative Expense	$5,374	4%	$35,583	4%	$34,525	4%
Cash Flow Out	$300,573	247%	$1,094,191	131%	$1,030,125	122%
Operating Cash Flow	($175,706)	-144%	($257,839)	-31%	($375,400)	-44%
Net Investment Income	$140,178	115%	$512,919	61%	$489,059	58%
Temp Fund (Purchases)/Sales	$0	0%	$0	0%	$0	0%
Bond (Purchases)/Sales	$41,343	34%	($269,163)	-32%	($91,570)	-11%
Fixed Asset Activity, Net	($1,926)	-2%	($4,355)	-1%	($6,269)	-1%
Net Cash Flow	$3,889	3%	($18,438)	-2%	$15,820	2%
Beginning Cash	($4,844)		$17,483		$1,663	
Ending Cash	($955)		($955)		$17,483	

* Includes total dividends of $203M.

State of Washington
Industrial Insurance Fund

Notes to Financial Information

Note A - Summary of Significant Accounting Policies

The State of Washington prepares a Comprehensive Annual Financial Report (CAFR) which includes all funds and account groups of the State and which is in accordance with generally accepted accounting principles (GAAP). The financial activities of the Labor and Industries workers' compensation programs are included in the CAFR.

The accompanying financial information uses "statutory" accounting principles, as would be required of a casualty insurance enterprise when reporting its financial condition to insurance regulators.

Under statutory accounting principles, certain assets (principally receivables which are greater than ninety days past due and office furniture and equipment) are charged against the contingency reserve. Under GAAP, such assets would be recorded on the balance sheet as assets, less valuation allowances or accumulated depreciation.

Bonds are stated at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to investment income. Under GAAP, some or all of the fixed income securities would be stated at market value. Gains or losses on disposition are based on net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method. Equity securities are stated at market value. Changes in unrealized appreciation or depreciation on equity securities are reflected separately in the income statement.

The Supplemental Pension and Second Injury Funds (See Note C) were not included in these statements because the primary purpose of these statements is to present the financial condition and results of operations of those funds required to maintain actuarial solvency as a basis for premium rates.

Note B - Description of the Industrial Insurance Fund

The State of Washington, through Title 51 RCW, requires employers to secure payment of benefits for job-related injuries and diseases either by paying insurance premiums to the Workers' Compensation Fund or by self-insuring. Direct private insurance is not authorized, although self-insurers are permitted to reinsure up to 80 percent of their obligations through private insurers.

Note B - Description of the Industrial Insurance Fund, continued;

The statutes provide five benefit funds to make compensation payments to injured employees for various losses. The Accident, Medical Aid, and Pension Reserve Benefit Funds are required to be self-sustaining by insurance premiums. These financial statements report on the financial condition and results of operations of these funds.

The Accident Fund pays compensation directly to injured employees for lost wages during temporary disability, for permanent partial disability awards, and awards pensions to survivors of fatally injured workers and to workers adjudged to be permanently and totally disabled. Claim liabilities are discounted to their present value, as reported in these financial statements, based upon a 4.0% interest rate assumption. Revenues for this fund are provided by employer-paid premiums, calculated on the basis of hours worked. Employers may elect to be retrospectively rated. All retrospective premium adjustments are financed entirely through the Accident Fund. The adjustment calculation considers both Accident Fund and Medical Aid Fund experience and premiums together, however, no retrospective adjustments are made through the Medical Aid Fund.

The Medical Aid Fund pays for the cost of medical and vocational rehabilitation service to injured workers. Employers are allowed to withhold half of the medical aid premium from employees' wages. Medical reserves are discounted to their present value, as reported in these financial statements, based upon a 4.0% interest rate assumption. Revenues for this fund are provided by equal contributions from employers and employees.

The Pension Reserve Fund pays benefits to all permanently disabled pensioners including disabled employees of self-insured employers. These reserves are discounted based upon a 6.5% interest rate assumption. Funding for these pensions is provided by transfers from the Accident Fund and from self-insurers.

The Accident, Medical Aid and Pension Reserve Funds are required to be maintained on an actuarially solvent basis, except that a cash flow basis is authorized for the components of the Pension Reserve fund when related benefits are guaranteed, with a surety bond, by self-insured employers.

Benefit and claim administration expense liabilities are computed by the Agency's actuaries. These liabilities are reviewed at the end of the fiscal year by independent consulting actuaries. The liabilities are estimated future claim and claim administration expense payments for injuries occurring on or before the balance sheet date on a discounted basis. Future premium income is not offset against claim liabilities, as the claims liabilities arise from coverage periods for which premiums have, in general, already been fully earned. The obligation to pay claim and claim administration expense liabilities is not contingent upon any future premium for future coverage periods.

State of Washington
Industrial Insurance Fund

Notes to Financial Information

Note C - Other Related Funds

The Second Injury Fund is used to pay pension costs on claims where permanent total disability is wholly or partially caused by a pre-existing condition. It is funded by amounts received from the Accident and Medical Aid Funds for state fund claims, and by self-insured assessments for self-insured claims. An allowance for future second injury benefit payments is contained within the Accident Fund and Medical Aid Fund claim reserves for State Fund claims. Therefore, this fund does not carry any reserves. This fund's operations are not directly accounted for in these financial statements, but second injury claims which it services are accounted for through the Accident and Medical Aid Funds.

The Supplemental Pension Fund provides for supplemental cost-of-living adjustments to injured employees receiving disability payments. However, the enabling statute requires this fund to operate on a current payment basis and is subject to legislative cancellation. No assets are allowed to accumulate for the future servicing of current claims.
Cost-of-living increases are based on the increase in the state average wage during the preceding calendar year and are granted in July. This fund is financed through assessments to self-insurers and State employers; half of the assessment may be deducted from employees' wages. Income, expense, assets, or future claim liabilities related to Supplemental Pension or Second Injury Funds are not included in the attached financial statements.

The Second Injury Fund and the Supplemental Pension Fund are included in the CAFR. Because these funds are not required to maintain actuarial solvency, as the Accident, Medical Aid, and Pension Funds do, they are not included in this financial information.

Note D - Premiums Receivable, Net

All employers in the State of Washington subject to Title 51 of RCW are required to be covered by the Industrial Insurance Fund and pay policy premiums for workers' compensation insurance, except for certain qualifying employers electing to self-insure. Premiums are based on individual employers' reported payroll hours and insurance rates based on each employer's risk classification(s) and past experience. In addition to its regular premium plans, the Fund offers a retrospective premium rating plan under which premiums are adjusted annually for up to four years following the plan year based on individual employers' loss experience. Adjustments to the original premiums are paid to or collected from the employers approximately ten months after the end of each plan year.
Employer premiums are due 30 days following the calendar quarter covered. An allowance for uncollectible premiums is established when the account becomes delinquent.

State of Washington
Industrial Insurance Fund

Notes to Financial Information

Note E - Reinsurance

The Agency maintains reinsurance agreements with reinsurance companies which provide for recovery of claims to the extent that such claims exceed $25 million
(up to $375 million) ultimate net loss on a per occurrence basis during the reinsurance coverage period. The Agency would be liable to the extent reinsuring companies are unable to meet their treaty obligations. Reinsurance premiums, commissions, expense reimbursements and reserves related to reinsurance ceded are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies have been reported as a reduction of premium income.

Note F - Estimated Future Benefits

Reserves for unpaid benefits and claims administration expenses in the Accident Fund and Medical Aid Fund are provided based primarily on ratios of paid to date losses for older accident periods. For more recent accident periods, a selection of several common actuarial techniques is used. These estimates are continually under review and, as changes to the liabilities become necessary, such adjustments are reflected in income currently.

The liability for benefits for the Pension Reserve Fund is determined from individual claims transferred to this fund. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided.